

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

MEETING OF THE
AUDIT COMMITTEE

OPEN SESSION

Monday, April 16, 2012

2:11 p.m.

Legal Services Corporation
3333 K Street, N.W.
F. McCalpin Conference Center, 3rd Floor
Washington, D.C. 20007

COMMITTEE MEMBERS PRESENT:

Victor B. Maddox, Chairperson
Harry J.F. Korrell III
Gloria Valencia-Weber
David Hoffman (Non-Director Member)
Paul L. Snyder (Non-Director Member) (by telephone)
John G. Levi, ex officio

OTHER BOARD MEMBERS PRESENT:

Sharon L. Browne
Robert J. Grey, Jr.
Charles N.W. Keckler
Victor B. Maddox
Father Pius Pietrzyk, O.P.
Julie A. Reiskin

STAFF AND PUBLIC PRESENT:

James J. Sandman, President

Richard L. Sloane, Special Assistant to the President

Rebecca Fertig, Special Assistant to the President

Kathleen McNamara, Executive Assistant to the President

Victor M. Fortuno, Vice President for Legal Affairs,
General Counsel, and Corporate Secretary

Mattie Cohan, Senior Assistant General Counsel,
Office of Legal Affairs

David L. Richardson, Comptroller and Treasurer, Office
of Financial and Administrative Services

Martin Polacek, Accounting Manager, Office of Financial
and Administrative Services

Jeffrey E. Schanz, Inspector General

Laurie Tarantowicz, Assistant Inspector General and
Legal Counsel, Office of the Inspector General

Ronald "Dutch" Merryman, Assistant Inspector General
for Audit, Office of the Inspector General

Thomas Coogan, Assistant Inspector General for
Investigations, Office of the Inspector General

David Maddox, Assistant Inspector General for
Management and Evaluation, Office of the
Inspector General

Daniel Sheahan, Program Evaluation Analyst, Office of
the Inspector General

STAFF AND PUBLIC PRESENT (Continued):

Magali Khalkho, Resource Management Specialist, Office
of the Inspector General

Carol A. Bergman, Director, Office of Government
Relations and Public Affairs

Elizabeth Arledge, Communications Manager, Office of
Government Relations and Public Affairs

Treefa Aziz, Government Affairs Representative, Office
of Government Relations and Public Affairs

Traci Higgins, Director, Office of Human Resources

Eric R. Jones, Network/System Engineer, Office of
Information Technology

LaVon Smith, Network/System Engineer, Office of
Information Technology

John Constance, former Director, GRPA

Frank Strickland, Former LSC Board Chairman and
Non-Director Member of the Institutional
Advancement Committee

Robert E. Henley, Jr., Non-Director Member of Audit
Committee

Chuck Greenfield, National Legal Aid and Defender
Association (NLADA)

Terry Brooks, American Bar Association

Lisa Wood, American Bar Association

Linda Perle, Center for Law and Social Policy (CLASP)

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1 P R O C E E D I N G S

2 (2:11 p.m.)

3 CHAIRMAN MADDOX: I'm going to go ahead and
4 call the Audit Committee to order. Let's see if we
5 have a roll call. I guess we have Gloria here. I'm
6 here. Harry's here. And David Hoffman is here. Is
7 Paul Snyder on the phone, by chance?

8 MR. SNYDER: Yes, Victor, I am.

9 CHAIRMAN MADDOX: Welcome, Paul. Yes, I can
10 hear you.

11 MR. SNYDER: You have far-reaching powers; I
12 got a message that says, "The leader has muted the
13 phone."

14 CHAIRMAN MADDOX: Well, I think it's unmuted
15 now, so we can hear you fine.

16 MR. SNYDER: We're fine. Thank you.

17 CHAIRMAN MADDOX: Okay. Well, welcome.

18 So the meeting is called to order. I'll ask,
19 as the first order of business, the approval of the
20 agenda. Is there a motion?

21 //

22 //

1 M O T I O N

2 PROFESSOR VALENCIA-WEBER: So moved.

3 CHAIRMAN MADDOX: A second?

4 MR. KORRELL: Second.

5 CHAIRMAN MADDOX: All in favor?

6 (A chorus of ayes.)

7 CHAIRMAN MADDOX: The motion carries and the
8 agenda is approved.

9 The second item of business is approval of the
10 minutes of the Committee's telephonic meeting of March
11 15, 2012. And I believe that was a corrected version
12 of that.

13 PROFESSOR VALENCIA-WEBER: Yes, there was.

14 CHAIRMAN MADDOX: So is there a motion to
15 approve?

16 M O T I O N

17 MR. KORRELL: So moved.

18 CHAIRMAN MADDOX: And a second?

19 PROFESSOR VALENCIA-WEBER: Second.

20 CHAIRMAN MADDOX: All in favor?

21 (A chorus of ayes.)

22 CHAIRMAN MADDOX: And the motion carries and

1 the minutes have been approved.

2 We'll move to the next item, which is No. 3,
3 review of the Audit Committee charter and consider and
4 act on possible changes thereto. Just by way of
5 background for those who might not have been following
6 the ongoing process for the last year, this started, I
7 guess, in April of 2011 because of concerns that some
8 on the Committee had that the charter as it currently
9 exists in some respects was too broad or included
10 certain duties that were unrealistic or needed to be
11 modified in one degree or another.

12 We have had a variety of comments, and public,
13 and discussions on it. We've had redrafts of the
14 existing charter, with the able assistance of Mattie
15 Cohan in the OLA. And we have recently received
16 comments from David Hoffman, whose work has been,
17 frankly, extraordinary in reviewing the existing
18 charter, the various drafts, and providing his own
19 comments. I know that Paul Snyder had comments as well
20 in connection with our January meeting.

21 So, Mattie, you might as well come up. I
22 spoke with Dutch Merryman just on Friday briefly about

1 the comments that David had provided and a memo that
2 David had prepared and circulated. And I know that OIG
3 has concerns, and I hope that we can have an open and
4 productive discussion today about what concerns the OIG
5 has, what views the members of the Committee have, and
6 the current status of the draft as we have it.

7 And perhaps, to get the process started, I'd
8 like to ask David if you could articulate the work you
9 did and make sure that we are all on the same page with
10 respect to the various drafts that were circulated.
11 There were a number of redlined versions around, and I
12 know it got a little bit confusing.

13 My hope is that we can have a draft that
14 compares the existing charter, in redlined version, I
15 guess, with, David, your comments which to some degree
16 differ from the approach that was last presented to us
17 by Mattie; and then, if possible, decide how to proceed
18 in light of the OIG comments and whatever time we need
19 to take.

20 Ultimately, I think it's important that we get
21 this process resolved, certainly no later than the next
22 couple of months. I had hoped that we would be able to

1 agree on a resolution of a new charter today and
2 present it to the Board, but I don't think that's going
3 to be possible. Nevertheless, it certainly is my goal
4 that we have a resolution for the Board no later than
5 our July meeting.

6 So with that, David, perhaps you can shed some
7 light and educate us on the work that you've done.

8 MR. HOFFMAN: I'm not sure I'll be able to
9 shed any light, but I'll give it my best.

10 Let me just say a couple things about process
11 because I do agree that there were in the last week and
12 whole bunch of back-and-forth on the redlines when I
13 was examining this, with apologies to the Committee
14 about the belated nature of my review.

15 But I was looking at the redlined version that
16 Mattie Cohan had sent around, I think, in January. And
17 so I was looking at the existing charter and that one.

18 And then I think one of the things that maybe added to
19 the confusion is I think you guys circulated a new
20 draft with the board book maybe Wednesday or Thursday
21 or so of last week.

22 So one of the last emails I sent around was

1 marked up, showed a redlined version from the draft
2 that I had put together of the revised charter,
3 comparing it with the existing one. I also did a
4 redline comparing it of the one back in January. But
5 at some point, obviously, we need to unify this and
6 make it clear.

7 In terms of the substantive points, one of the
8 points of discussion that led to a broader review was
9 the issue of whether the existing charter should be
10 changed on the topic of the selection of the external
11 auditor.

12 The existing charter says that the Audit
13 Committee shall oversee the selection and retention of
14 the external auditor, which is to be done by the IG.
15 And we received a draft, as everyone knows,
16 recommending that that provision be removed because of
17 a concern from the IG's office that would impact on
18 their independence.

19 And I think that leads into -- and I don't
20 agree with that in the sense that I think that it's
21 appropriate for us, as a committee on behalf of the
22 Board, to hear information about what external auditor

1 the IG believes should be selected, and then hear why
2 that makes sense, and then decide if that creates a
3 problem or not or if it's appropriate.

4 I think that one of the things that a lot of
5 us on the Fiscal Oversight Task Force took away from
6 that process is that for the Board to conduct proper
7 supervision regarding risk management to ensure that
8 funds are properly protected, that there is some
9 significant role for the Board to play in overseeing
10 and supervising the components of management and the
11 IG's office that do this; and that when they do a good
12 job of both performing those functions and coordinating
13 with each other, the job of Board "general supervision"
14 should be very easy.

15 It's just sort of collecting information to
16 hear, presumably, that it's working well, and hearing
17 about that; but that that function is important for the
18 Board. And therefore, looking at the different
19 charters of the different committees, the role that the
20 Audit Committee plays is of critical importance in
21 making sure that we receive information both from the
22 key parts of management and from the IG's office about

1 their function in this regard regarding audits and
2 other aspects of their operations so that we're
3 informed on behalf of the Board about how these
4 anti-fraud and other risk management efforts are going,
5 and so that the Board can be assured that the
6 operations are being done properly and that there's
7 proper coordination and communication.

8 One of the things that we saw from the task
9 force was that there's a lot of good risk management
10 operations and efforts and resources in LSC management
11 and IG, but it's a little bit complex and confusing
12 because there's lots of overlapping parts. And a
13 significant part of that is in an IG that is of
14 critical importance that remain independent.

15 So as long as the Audit Committee, in my view,
16 is receiving information on a regular basis from
17 management and from the IG about these different parts,
18 and we as a Committee on behalf of the Board can feel
19 comfortable that those operations are working properly,
20 then it should be fine.

21 The charter in its existing form gets most of
22 the way there, but in my view needs to make a couple

1 more things explicit regarding risk management. And I
2 was concerned that in the draft that we received in
3 January from Ms. Cohan that it narrows it further and
4 would restrict the Audit Committee's ability to provide
5 the proper kind of general supervision under the
6 statute of the IG and management.

7 I'll say one last thing. I won't get into the
8 weeds at all on this, although if there's a need for
9 that, I'd be happy to answer questions or discuss that.

10 The last thing is, let me say something specifically
11 about the IG's office.

12 As a former inspector general myself, I not
13 only appreciate the importance of independence for an
14 IG, but to me it's the most critical element of an IG
15 in order to make it effective. The LSC, and therefore
16 the Board, needs the IG to be strong and effective. It
17 therefore needs the IG to be independent.

18 So to me, when I think about the Audit
19 Committee's role regarding supervision and/or
20 oversight, part of that supervision and oversight
21 should be to help ensure that the IG's independence is
22 protected and strong. That's a critical part of what

1 we do.

2 So the idea of the Audit Committee receiving
3 information from the IG and thinking about general
4 supervision should not be interpreted as any negative
5 statement about our desire for the IG's independence.
6 To the contrary. It should be seen as consistent with
7 and very protective of that independence.

8 But for the parts of management and IG to work
9 strongly and to work together and to make sure that
10 some aspect of the Board is being informed about those
11 and assessing them, to me that needs to be within the
12 Audit Committee. It's the right place to do it, and I
13 think the revised charter I put together tries to
14 fulfill that.

15 CHAIRMAN MADDUX: Well, that's very helpful.
16 I had a conversation -- Dutch, maybe you should come
17 forward, or you and Jeff as well. We had a
18 conversation earlier today in which you all expressed
19 some concern about the approach, I believe, that David
20 has suggested. Am I correct that David shared his
21 memorandum with you?

22 MR. MERRYMAN: Yes, absolutely. We got the

1 memorandum last week and we started going through it,
2 and had not had time to get back with David to talk
3 about it, and he was en route. But we did want to talk
4 to you, just give you a heads up that we do have some
5 concerns that we would bring up, so it wouldn't be
6 surprise to the committee.

7 CHAIRMAN MADDOX: Right. Well, as I summarize
8 my thoughts on it, I did not understand David's
9 memorandum or his approach to make any dramatic changes
10 in the approach that the Committee has had since its
11 initial charter was adopted insofar as its relationship
12 with OIG is concerned.

13 In particular, one of the things that David's
14 memo does is to leave intact the existing language in
15 Section 7, I believe, subparagraph 1, that says that
16 unless otherwise directed by the Board, the Committee
17 shall oversee the selection and retention of the
18 external auditor by the Inspector General of the
19 Corporation.

20 So to the extent that the OLA draft, if we
21 call it that, or the Cohan draft --

22 MS. COHAN: Don't call it the Cohan draft.

1 CHAIRMAN MADDUX: -- would have -- I'm sorry,
2 I'm calling it that -- would have deleted that. It
3 was, as explained in the comments in the board book, it
4 was a withdrawal of authority, if you will, or at least
5 a specific duty from the Committee, which I think
6 David's position is, is inappropriate.

7 Now, there may be other aspects of the draft
8 that somehow go to the OIG concerns for its
9 independence or for the appropriate jurisdiction, if
10 you will. But I don't see that change as affecting
11 any -- I mean, if we stopped what we're doing right now
12 and just said never mind, then we'd have a charter that
13 apparently has been acceptable for the last four years.

14 So I think for us to get to a point where
15 we've got a document that we're all going to be able to
16 sign onto and be happy with, we'll probably need to
17 identify any other areas in David's approach that cause
18 the OIG concern, and then have a discussion about how
19 to take the two approaches and get to a final document.

20 It might be appropriate, OIG, if you share
21 with us some thoughts that you have. Now, I realize
22 that you have not had time to give it the kind of

1 analysis or thought that you might want to do. But it
2 would be helpful to get some sense for where office
3 stands right now.

4 MR. SCHANZ: Well, I'd like to start with
5 that. This is Jeff Schanz, the Inspector General. Our
6 independence and authority comes from federal statute.

7 It does not come from the Audit Committee. It does
8 not come from the Board. Our independence is by
9 federal statute.

10 Much like the IGs of Justice and DOD, we have
11 the same responsibilities, the same laws, the same
12 everything applies to us even though I'm at LSC and I
13 report to a board of directors under general
14 supervision.

15 As I read the final document, and I got it
16 yesterday -- well, on the 13th -- there were many
17 things in here that indicated, "Review and discuss with
18 the IG its internal audit responsibilities." I have
19 the authority to develop my internal audit
20 responsibilities, and I share them with the Audit
21 Committee on a quarterly basis. That's already being
22 done proactively by the IG.

1 Independence -- and the Audit Committee does
2 not have to ensure my independence because I am
3 independent by fact and by law. And if I'm not, then I
4 have a direct reporting route directly to the Congress
5 of the United States.

6 CHAIRMAN MADDUX: Can I just interrupt for
7 now?

8 MR. SCHANZ: Yes.

9 CHAIRMAN MADDUX: First of all, I don't think
10 that anything that's been proposed or any process that
11 we follow, Jeff, is with the thought of infringing on
12 your independence. And with respect to your last
13 point, the existing charter says, in item 4 under
14 Section 7, Authority -- Section 8, Duties and
15 Responsibilities, that the Committee "shall review with
16 the OIG its internal audit responsibilities, sanctions,
17 and performance; its internal audit plan, and the risk
18 assessment that drives its internal audit plan; and the
19 effectiveness of its internal audit plan and
20 activities."

21 So to the extent that there is concern that
22 the Committee is taking on authority to review with OIG

1 its inner workings or its audit plans, we've got that
2 not only authority but duty, as we sit here today. And
3 I think the language of that same section in the board
4 book is largely unchanged.

5 MR. MERRYMAN: May I just comment on that
6 fairly quickly?

7 CHAIRMAN MADDOX: Sure. Yes, absolutely.

8 MR. MERRYMAN: We objected to it at the time
9 it was put in. But not being management, management
10 can elect to do what they want to do. And this is the
11 first time the opportunity has come to address it
12 again.

13 CHAIRMAN MADDOX: So OIG objected to that --

14 MR. MERRYMAN: Yes.

15 CHAIRMAN MADDOX: -- in 2008?

16 MR. MERRYMAN: Yes. Yes. This is not a new
17 objection.

18 CHAIRMAN MADDOX: Okay. Well, that's helpful.

19 MR. MERRYMAN: Yes. And I can give you the
20 background on that, when we objected to it. But again,
21 we're independent of management, and management's
22 independent of us in making decisions and managing the

1 Corporation --

2 CHAIRMAN MADDOX: Right.

3 MR. MERRYMAN: -- and again, can make the
4 charter how they feel it should be. There is a caveat
5 in both charters, the current charter and the revisions
6 that have been set forth, about nothing it to interfere
7 with the IG Act. It's almost like an escape clause
8 type of thing for almost anything that's in the charter
9 that we feel might interfere with our independence; we
10 can refer to that need start explaining it.

11 The other thing that happened in 2008, there
12 was no procedures ever put in place to do these things
13 specifically, which was another comment that we had at
14 a time, that how is this going to happen?

15 There's certain terminology, there's certain
16 information here, that I think we need to explore with
17 each other to make sure we understand so it's not a
18 communication problem, that is there really a problem
19 or is it just communication.

20 The word "oversee" the IG is very troublesome
21 to a federal IG because it's not a word that's used in
22 the IG Act, to oversee IG or OIG operations. What is

1 used is the term "general supervision of the IG." So
2 we're always cautious about seeing, what does "oversee"
3 mean, and do we start down a slippery slope with that?

4 In the alternate language, for instance, to
5 "determine whether to approve the selection and
6 retention" implies that the Board will have the
7 authority to instruct us who to select, if that's what
8 they want to do. That, I think, is a slippery slope,
9 too, for a federal IG.

10 We do have processes in place, and it is
11 reviewed in the peer review process, of selecting IPAs
12 that do audits of the organization that we hire and
13 that we monitor and everything.

14 So that's why it was in the 2008. It wasn't
15 because we didn't object to it; it's because management
16 decided to leave it in. And that's what they did.

17 MR. HOFFMAN: Just a couple quick things in
18 response.

19 CHAIRMAN MADDOX: Go ahead, David.

20 MR. HOFFMAN: And I, as a relative newcomer to
21 the LSC Board process, you'll have to take these
22 reactions as just that, someone who's relatively new.

1 But isn't it fair to correct slightly
2 something that you said, meaning that management
3 doesn't approve this charter; and in '08, management
4 didn't make the decision about whether to disagree with
5 the IG's points.

6 MR. MERRYMAN: Correct.

7 MR. HOFFMAN: It was the Board.

8 MR. MERRYMAN: Correct.

9 MR. HOFFMAN: And it was the Audit Committee.

10 And the Audit Committee then and now, and the Board
11 then and now, are different from management and
12 independent of management, and have an obligation to
13 independently oversee management.

14 So that's been my experience since I've been
15 here. And you know I understand the sensitivity --

16 MR. MERRYMAN: Right.

17 MR. HOFFMAN: -- about IG independence
18 generally and from management. But I wouldn't want it
19 to be assumed or interpreted that the charter is being
20 created by management.

21 MR. MERRYMAN: It was the Board who did
22 approve the charter. The Board is the head of the

1 agency. They did do that. And it was the Board who
2 decided to leave it in, ultimately. And it wasn't the
3 Audit Committee because the Audit Committee wasn't -- I
4 think the Audit Committee and the charter were sort of
5 adopted at the same time, simultaneously.

6 So it was a recommendation of the Ad Hoc
7 Committee to approve the charter and establishing an
8 audit committee or -- I don't remember the exact
9 sequence.

10 But you're right. It's absolutely correct.
11 The Board did approve it, did decide to leave it in,
12 and it is the Board's decision also on the charter now
13 to leave it in or take it out.

14 But I did want to make sure that -- my main
15 point being that it was objected to. It wasn't
16 something that we had agreed to at one time and now we
17 had second thoughts about it. We objected to it from
18 the beginning.

19 MR. HOFFMAN: And that memo from '08 was
20 distributed to the members of the Audit Committee here.

21 I've read it with great interest, and saw the
22 references to the statutes, which don't govern LSC, but

1 talk about the practice, the statutes that govern other
2 I guess in other parts of the federal government, and
3 so on.

4 To engage a tiny bit on the merits, because I
5 do think that no one wants -- to the extent this is an
6 issue created, it's an issue created by me in terms of
7 the timing of when I distributed that, so for that I
8 apologize -- and so no one wants to make this a rushed
9 process. So this can be a first step, if need be, in
10 terms of the discussion of the merits.

11 But so to engage just briefly on that, on the
12 issue of the external auditor and to respond, Dutch, to
13 your comments about the word "oversee" as it is in the
14 existing charter, and then my proposed alternative
15 language, which includes, "shall review the
16 recommendation" and then "shall determine whether to
17 approve such selection and retention."

18 I don't interpret that as the Audit Committee
19 being able to say to you, "You must hire so-and-so
20 auditor." But I'm imaging a couple -- I do think, as a
21 practical matter, it would require both the Audit
22 Committee and the IG to be in agreement on it.

1 I don't think that will be difficult, and I
2 think it's appropriate for this reason. If the Audit
3 Committee has concerns, as an example, about the
4 expertise or competence of the auditor who's chosen, I
5 think that's an important thing for the IG to hear
6 about and for us to have a discussion about.

7 Looking back on the auditors that have been
8 chosen, it's hard to imagine that concern arising when
9 an IG acts responsibly in choosing the auditor. But in
10 terms of an audit, one of the most critical things that
11 will happen for the LSC every year and that's of
12 critical importance for the Board in assessing what the
13 finances are of the Corporation and so on, having at
14 least the slightest, slightest voice in terms of
15 comfort level of that was what was behind that
16 language.

17 I think that "oversee" is a vaguer term, but
18 certainly communicates that. And I think the
19 alternative language communicates that. And if there's
20 no alternative to that other than just take it out, I
21 would have a tough time, as one person, just being
22 convinced that that's the right way to go.

1 MR. SCHANZ: We have engaged the Audit
2 Committee since I've been here, and prior to me, in the
3 selection of the independent auditor. They have been
4 involved at the entrance conference. They have been
5 involved when we put out our RFP.

6 So the Audit Committee has been engaged as
7 much as they want to be engaged during the selection of
8 the independent auditor. I personally feel that's an
9 IG function. If the Audit Committee feels differently
10 and they have the resources to staff that selection and
11 to go through a competitive process and bidding process
12 like we do, and to take a look at prior work papers
13 that we do, they can be more than happy.

14 That's not my issue. My issue is the
15 independence issue here that's presented, and I think
16 it's being chipped away at the margins. Those are my
17 concerns, and the difference between the original
18 charter and the charter that was presented to us on
19 Friday.

20 MR. HOFFMAN: But the initial charter -- on
21 this external auditor point, the initial --

22 MR. SCHANZ: That's a throwaway. That is

1 fine.

2 MR. HOFFMAN: So it's fine to keep it as is?

3 MR. SCHANZ: If the Audit Committee wants to
4 take that on, they can take that on. That is the
5 Board's prerogative. But we have --

6 MR. KORRELL: There's some risk of setting up
7 a straw man here. No one here is suggesting that the
8 Audit Committee wants to take on this process of
9 selecting the independent auditor. I don't think it
10 helps the conversation to set up a straw man and then
11 kick it down.

12 I really do think the point on the external
13 auditor was simply the language about the Audit
14 Committee's role in weighing on what I think everyone
15 acknowledges is ultimately going to be the OIG's
16 selection. And the question is really just the wording
17 about what role we play when you recommend the
18 selection of an auditor.

19 MR. MERRYMAN: And to answer David just a
20 little bit, there's no intent here not to have the
21 Audit Committee involved. They should be involved.

22 MR. SCHANZ: And have been involved every year

1 since we've done this.

2 MR. MERRYMAN: As a matter of fact, I have in
3 front of me now some of the things -- if there's time
4 for the IG's time -- that we're going to talk about,
5 and that is that we will be reaching out to all members
6 of the Audit Committee over the next week or so because
7 we're getting ready to do an evaluation, our
8 evaluation, of whether to retain the auditor or not, to
9 get their input and concerns and to listen to them
10 because it is important.

11 Since 2008, we have sent the RFP to the
12 Committee to look at and to get their comments, and we
13 have changed the RFP based on some of their comments
14 and everything. Some things we didn't change. And we
15 tried to make sure that the Audit Committee is
16 involved, that they are informed, they know what's
17 going on in the process. And that's part of getting
18 wording right and getting the procedures right that we
19 want to follow.

20 MR. HOFFMAN: So let me just say maybe this is
21 an easy one, then.

22 MR. MERRYMAN: I think it is.

1 MR. HOFFMAN: Because my impression was that,
2 just as you say, that the process was fine and had been
3 working, and so therefore there doesn't seem to be a
4 need to change the language. We were reacting to a
5 proposed change in the language that stripped it out.

6 If the answer is let's just leave it as is and
7 everyone's in agreement, then we can move on to the
8 next issue.

9 CHAIRMAN MADDUX: Gloria?

10 PROFESSOR VALENCIA-WEBER: Yes. As it's
11 described, the OIG office has been keeping us informed,
12 and since I've been on the Audit Committee, no lack of
13 communication about what you're doing, the step in what
14 you're doing, and what you're putting out.

15 I actually see that what we now have before us
16 in the last form gives much better content to the
17 "oversee." I understand the problem about the somewhat
18 ambiguous character of that, and in fact, when we
19 looked at the original charter we started with, I
20 joined initially, immediately, the discomfort that both
21 Harry and Vic have expressed about the over-breadth of
22 some of those verbs.

1 Some of those verbs are downright frightening
2 to somebody who had to pull out what accounting for
3 lawyers that I had way back so many years ago. It's
4 not adequate for what we have to do.

5 And so I see that what's proposed here is much
6 better and much clearer, and in fact fits what we have
7 been doing. And so I don't see it as a problem of
8 threatening the independence because obviously, it will
9 ultimately be the IG decision about which auditor you
10 want to select and why, and that it will be your office
11 engaged in the contracting process.

12 I join with David's last comment. I don't see
13 that this is, at this point, at least -- what we might
14 have is terminology difference, and we'll just have to
15 work that out. But as to how it has processed in the
16 past, how it's happened in the past --

17 MR. SNYDER: Victor, can I just weigh in?
18 This is Paul Snyder. I agree with David and Gloria's
19 comment that -- the alternative wording is fine with me
20 as well because I think we would review the
21 recommendation. We're not suggesting we're going to
22 substitute for the OIG; that's not our intention.

1 But I do think the Audit Committee, perhaps
2 and the Board, has to have an understanding of the
3 qualifications of the external auditor that's going to
4 do the audit of the Corporation. And to not do so, I
5 think we would be negligent.

6 So I think the wording where we say we review
7 that function I think is adequate because I think even
8 "oversee" sounds like we're going to be very active in
9 the IG's selection. And it sounds to me like people
10 are quite comfortable with the selection process the
11 OIG's gone through and his ability to evaluate external
12 auditors.

13 All I think this is saying is that we just
14 want to be informed and understand who that firm is and
15 their qualifications so that we can represent that they
16 are qualified to conduct the audit of the Corporation
17 books.

18 MR. MERRYMAN: I agree. We want the Committee
19 to be informed, involved, to express their opinions and
20 any concerns. It's very important. We do follow a set
21 of procedures that are outlined for us in what's called
22 FAM 650. It's a GAO publication. It's what we are

1 evaluated on by our peer review when they come through
2 to make sure we are following those things and looking
3 at the independence.

4 And we're very comfortable in our process of
5 what we've implemented to be in conformity with all the
6 requirements that we have on us as an IG, as following
7 government auditing standards, those types of things.

8 And we want the Board, and especially the
9 Audit Committee, to be involved. It's a very vital
10 part. You should be. You should be informed. You
11 should know who your auditors are. So there's no
12 problem there. We've just got to get the words.

13 That's why I think some of this gets down to
14 definitions. What are we really talking about? My
15 concerns are -- some of the things, when we talk about
16 the word "functions," what does that mean, when we talk
17 about internal control functions?

18 I am prohibited -- well, let me put it this
19 way. One of the major threats to an audit organization
20 in government auditing standards is management
21 participation. And what that basically mean is, we
22 cannot act as management or for management or take over

1 any management responsibilities.

2 Audits are meant to be information that
3 management can use in their responsibility of dealing
4 with internal controls, and that what we need to do is
5 make sure we coordinate with management and with the
6 Audit Committee on what our plans are, what
7 management's plans are, so that they can know that
8 there's information that we're going to have that would
9 be beneficial to them in helping them do their own
10 assessment on their internal controls. And they can
11 rely upon that information as being objective and
12 independent.

13 To the extent that our work mirrors or
14 compliments management's responsibilities, they can
15 rely upon our information as well as the external
16 auditor and other sources. But it's not replacement
17 for management.

18 And so we've got really understand how we're
19 using some terminology. That's why I think it's good
20 to sit down, maybe just get down into the weeds -- not
21 here, but down into the weeds and make sure we fully
22 understand what's intended by some of the terminology,

1 make sure we're not misreading what's going on.

2 CHAIRMAN MADDOX: Well, I think that's
3 certainly appropriate. I do want to echo the comments
4 of Gloria and David and Paul, and Harry, I guess. It's
5 unanimous.

6 I don't see anything that we've done here or
7 that we're proposing here as an attempt to constrain
8 OIG or to infringe upon OIG territory, to put it in the
9 vernacular. I think that, in fact, it's the opposite.

10 And I suspect that if we get into the specific
11 language and terminology, we'll find that to be the
12 case.

13 As I say, our existing charter gives us the
14 overseer's authority. I didn't pick the word; none of
15 us on this Committee did. And in addition to that, it
16 gives us the duty to review internal audits and audit
17 plans and the like.

18 So I think Jeff has suggested rightly that we
19 don't have, really, the capacity to do that, and none
20 of us want that. We're not suggesting that we expand
21 our scope. In fact, we started the process with the
22 intention of narrowing it.

1 So it may well be that what we ought to do is
2 let OIG, in its appropriate time, review what we have
3 and provide us with some specific concerns about
4 specific language. I mean, so far I think we've just
5 been talking in some general concepts. But the drafts
6 that we now have have specifics.

7 In fact, I think one of the things that we
8 have accomplished is, by it reviewing thus far, we've
9 managed to compartmentalize the various areas of
10 responsibility into, I think, risk management,
11 financial reporting, and audit responsibilities. And
12 right now, the charter is just sort of an amalgamation
13 of all those duties.

14 So it's helpful to have it organized better,
15 and I think we've got that now. And that ought to help
16 inform OIG's analysis of where the authority exists
17 today and where we're proposing that it go if it's
18 being constrained or narrowed, and if so, if that's
19 appropriate. And if you think that it's being expanded
20 inappropriately, then we'd certainly like to hear that.

21 But I think we've got a good foundation. And
22 I would hope that we could get your comments, Dutch,

1 and those of your office, Jeff, in the next 30 days or
2 so so that we could, if need be, schedule another
3 meeting in advance of July because I suspect that our
4 July meeting will be busy. I would like to be able to
5 have the committee take action and have a resolution to
6 put before the Board at our July meeting.

7 Is that reasonable?

8 MR. MERRYMAN: Yes, it is. It is.

9 MR. SCHANZ: Well, as a practical matter,
10 though, I'd like to know which the final final is. I
11 have a draft that looks like a Christmas tree.

12 (Laughter.)

13 MR. HOFFMAN: Right. It's pretty.

14 MS. COHAN: It's festive.

15 MR. SCHANZ: And at the bottom, it says,
16 "Hoffman Revisions 4/13/2012." Is that the current
17 state of the document from the Audit Committee?

18 CHAIRMAN MADDOX: Let Mattie address it. I
19 agree it's confusing. I know that we've got the
20 Hoffman draft in redline. We've got your clean
21 version. And we've got the board book version, which
22 does not include any of the Hoffman comments.

1 MS. COHAN: Well, it actually includes several
2 of the Hoffman comments, but not all of them. What
3 happened was that at the last meeting, it was agreed
4 that individual members would provide their comments to
5 me. And I received those, and the version that's in
6 the board book reflects the comments that I received up
7 to the point that I had gotten them at that point, that
8 last email that you said, encouraging people.

9 CHAIRMAN MADDOX: About the first of April.

10 MS. COHAN: And so all of the comments that I
11 received to that point are already reflected in here,
12 plus there were a few additional management comments,
13 reactions to some of the comments from the committee
14 members.

15 And the Committee had asked me to -- what I
16 had originally done with the existing charter was I had
17 that annotation. And at the last meeting I was asked
18 to migrate the annotation into the revised draft of the
19 charter itself as it was reorganized.

20 So that's what the one in the board book does.

21 It's both -- I kept the reorganization from the
22 existing charter to what you saw in January because I

1 was under the impression that everybody liked the
2 reorganization, and then made some additional changes.

3 And then I stuck in the annotation so people could
4 understand what we were doing.

5 David's comments reiterate some of the ones he
6 had made previously that are reflected in here, but
7 there are additional ones as well. So I can take his
8 and work them into this and make one version that's
9 annotated that reflects all of his comments.

10 CHAIRMAN MADDOX: Yes. David, does your last
11 draft follow the structure that Mattie created?

12 MR. HOFFMAN: It does. And I think we're
13 all -- I think the Committee's in agreement where it's
14 going to be restructured along the lines as suggested.

15 My -- I'm hesitating to make this
16 suggestion -- my suggestion is that -- depending on
17 what the rest of the Committee thinks, is that we ask
18 the OIG to react to my draft, and that we take Mattie
19 out of the middle, to a certain extent.

20 MS. COHAN: That's fine with me.

21 (Laughter.)

22 MR. HOFFMAN: And since it is the Committee's

1 charter, I think we couldn't have -- we
2 certainly -- I'm hesitating, obviously, because I
3 understand where the burden will be placed in this
4 process. We couldn't have gotten to where we are
5 without OLA doing the work to move it forward.

6 ++ But my sense is that we're now far enough along
7 that it's just a question of figuring
8 out -- fine-tuning where there are disagreements, if
9 any; if so, perhaps doing some wordsmithing or
10 discussions on that -- maybe it's a broader
11 disagreement; maybe it's not -- and that that is
12 largely a two-way discussion between the IG's office
13 and the Audit Committee, and that that might simplify
14 things.

15 I think that although there's maybe a small,
16 minor set of the most recent set of changes, Mattie,
17 that aren't incorporated or dealt with in my draft,
18 I'll look at that again. But I think basically my
19 draft takes account of all the comments and all the
20 changes that had come before.

21 And as long as that's okay with the Committee,
22 I think -- and I agree, Jeff, it would make sense to

1 know what you're dealing with here -- that that would
2 be my suggestion.

3 CHAIRMAN MADDOX: I think that's a good
4 suggestion. Does that answer, Jeff, your question,
5 though, about what draft we're dealing with?

6 MR. MERRYMAN: Who's going to send it to us
7 and how are we --

8 MR. HOFFMAN: You should have it.

9 MR. MERRYMAN: We should have it? Okay.

10 MR. HOFFMAN: Yes. But I'm happy to resend it
11 again --

12 MR. MERRYMAN: No, that's fine. Is it the one
13 that came --

14 MR. HOFFMAN: -- in the morning.

15 MR. MERRYMAN: I'm sorry?

16 MR. HOFFMAN: I'd be happy to resend it. So I
17 think I sent the memo around; maybe it was Thursday.
18 And then later that day, so Thursday afternoon, then,
19 you also received a clean draft. And then some time
20 after that, someone in our office did a markup.

21 Now, to add to the confusion, which I'll now
22 simplify, I marked it up from two documents. All

1 right? I marked up my clean version from the existing
2 charter, which is the easiest one to deal with; but I
3 also marked it up from Mattie's prior draft.

4 The easiest thing to do is you've got the
5 Audit Committee's. At the bottom, it says "Hoffman
6 revisions" or "Hoffman draft." You've got that
7 document. And you've got the existing charter.

8 So I will resend a clean version of my Hoffman
9 revisions, and a redlined version that showed marked-up
10 revisions from the existing charter.

11 MR. MERRYMAN: And that's what we'll use,
12 then, for --

13 MR. HOFFMAN: Yes. Does that sound -- Jeff
14 and Dutch, does that --

15 MR. MERRYMAN: That sounds great, yes.

16 MR. HOFFMAN: -- sound good in terms of the
17 process?

18 MR. SCHANZ: Does that include all the
19 comments of the Audit Committee, though?

20 MR. HOFFMAN: When you say --

21 MR. SCHANZ: I have your comments, but are
22 Gloria's and Harry's embedded in there?

1 PROFESSOR VALENCIA-WEBER: Mattie had
2 integrated those. Am I correct?

3 MS. COHAN: Yes.

4 MR. HOFFMAN: I don't want to speak for the
5 rest of the Committee. But my both memo and draft
6 attempts to incorporate all the comments that had come
7 before from all the other Audit Committee members. So
8 I think the answer to your question is yes; I just
9 don't want to speak for the others.

10 MS. COHAN: I think that's probably correct.

11 PROFESSOR VALENCIA-WEBER: Assuming what we've
12 just discussed is the way we're going to operate with
13 what concerns the OIG may have, and that makes sense to
14 me, I'd like to point out something else in here.

15 I'm referring to David's last model that is
16 probably information-seeking on page 9 of the model,
17 where it's C.5, about a confidential mechanism in place
18 for individuals to make complaints anonymously, if
19 desired, regarding suspected fraud, corruption, misuse
20 of funds.

21 I would like to know, first, what are the
22 existing procedures or processes that are used for

1 those? And will we have to devise new ones or
2 modify --

3 CHAIRMAN MADDOX: No. Gloria, that's already
4 in place. It's part of the employee handbook.

5 PROFESSOR VALENCIA-WEBER: Okay. Okay.

6 CHAIRMAN MADDOX: I don't know the section
7 number, but I think it's referenced.

8 PROFESSOR VALENCIA-WEBER: Well, that's okay.
9 Let's just --

10 MS. COHAN: Section 2.5.

11 CHAIRMAN MADDOX: Section 2.5. Right. And
12 the way that exists currently, in broad outline,
13 Gloria, is that anyone is -- it relates to accounting
14 and audit-type issues; it's not just everything under
15 the sun.

16 PROFESSOR VALENCIA-WEBER: Right.

17 CHAIRMAN MADDOX: But it's specific areas.
18 They're allowed to bring a confidential issue to either
19 the Committee or to OIG. If they bring it to the
20 Committee, then the first order of business is for me
21 as chairman to decide if it's within the jurisdiction
22 of the Committee.

1 PROFESSOR VALENCIA-WEBER: Right.

2 CHAIRMAN MADDOX: As the current document
3 exists, it gives me the authority to decide that it's
4 basically meritless and dispose of it, or to bring it
5 on to the Committee for consideration.

6 Last year, when I first brought this up, I
7 thought that the authority to actually dispose of a
8 matter was more authority than the chair should have,
9 and I suggested that we modify it. As things
10 developed, it seemed to make sense that we just let it
11 in place and see how it goes and see if we get any
12 complaints. So far, we haven't had any complaints.

13 Of course, the chair has the authority -- and
14 probably the obligation; I don't have it in front of
15 me -- to notify the Committee of things that are
16 brought to it. I just thought that the jurisdictional
17 determination was appropriate for the chairman, but
18 perhaps not any sort of substantive determination.

19 As it exists right now, at least if something,
20 I guess, is frivolous, I could decide that it's
21 frivolous. But it's in the employee handbook. It's
22 not been used that I'm aware of. Nobody's ever emailed

1 or called me.

2 All right. Harry?

3 MR. KORRELL: Let me just make a quick -- and
4 this addresses Jeff's question about making sure his
5 draft has everything. And I just want to make sure I
6 understand.

7 So David's draft, the Hoffman draft, is a
8 reason of the first Mattie Cohan draft. Correct?

9 MS. COHAN: That's correct. It's a revision
10 of what you got in January.

11 MR. KORRELL: Okay. And that means Mattie's
12 restructuring and incorporating the concerns that Vic
13 raised, that I raised, and that Gloria raised were all
14 in that Cohan draft, which then David has modified.

15 So I think, Jeff, you have something that
16 incorporates all of our comments. I don't think you're
17 going to see much in there that says, this was Harry's
18 issue. This was Vic's issue. But Mattie's draft did
19 incorporate that, and David's run through it is a
20 revision of those things.

21 So I think you have the best thing to work
22 from.

1 MR. SCHANZ: Okay. Thank you.

2 CHAIRMAN MADDOX: Well, that was easy.

3 (Laughter.)

4 CHAIRMAN MADDOX: Is there anything else to be
5 said on that topic? If not, I appreciate your
6 comments, Dutch and Jeff. I appreciate your
7 understanding and patience with us. Mattie, we
8 certainly appreciate your efforts, and we look forward
9 to your comments. And call us, email us, if you have
10 questions in the interim and we'll try to work it out
11 as quickly as we can.

12 MR. MERRYMAN: I plan to put David on speed
13 dial so we can --

14 MR. HOFFMAN: Absolutely. I'm looking forward
15 to discussing with you or anyone you'd like.

16 CHAIRMAN MADDOX: So that, then, will take us
17 to the next item on the agenda, which is the quarterly
18 review of the 403(b) plan performance. And we have
19 Traci Higgins, director of the Office of Human
20 Resources. Welcome, Ms. Higgins.

21 MS. HIGGINS: Thank you.

22 During the quarter that just ended, there were

1 no additional changes to any of the governing plan
2 documents. And as of March 31, 2012, total assets,
3 including employer contributions, totaled
4 \$18,104,558.75, an increase of over \$1.48 million since
5 December 31st. So it's safe to say the first quarter
6 of the year was a good one, in fact, the best since
7 1998.

8 We have 15 funds that are year-to-date
9 yielding returns of between 5 and 11 percent, and seven
10 of our funds are 12 to 15 percent returns. Last
11 quarter there were a couple of funds on the advisor
12 watch list, the Goldman Sachs Mid Cap Value A and
13 PIMCO's Total Return Fund. And both have rebounded
14 quite well.

15 Compared to their peers, the Goldman Sachs
16 realized a 27 percent ratings increase and PIMCO was up
17 67 percent over its other peer funds. With the Goldman
18 Sachs, year-to-date return is 12.68 percent, and PIMCO
19 is 2.81 percent. So the advisor doesn't feel that we
20 need to make any changes at this time with respect to
21 those two funds.

22 And that's what I have.

1 CHAIRMAN MADDOX: Well, thank you very much.

2 It sounds like the plan is doing pretty well.

3 I should also say this is your first
4 appearance before our Committee. Is that right?

5 MS. HIGGINS: It is indeed.

6 CHAIRMAN MADDOX: Welcome to this august body.

7 MS. HIGGINS: Thank you. I'm happy to be
8 here.

9 CHAIRMAN MADDOX: All right. Well, thank you
10 very much.

11 We'll move now to our next item, which is the
12 briefing by the Inspector General. And I welcome again
13 Mr. Jeff Schanz or Dutch Merryman, or both.

14 MR. SCHANZ: Dutch, would you start?

15 MR. MERRYMAN: Yes. Just a few items to call
16 to the Board's attention.

17 The first is -- I'm sorry, but it's the
18 corporate audit, so I wanted to bring that up to the
19 Board. Two things are going to be happening that we
20 want to inform the Board about.

21 One is, I'll be sending an email to all audit
22 committee members to solicit input for retaining or

1 replacing the corporate auditor from this year. We
2 have two option years; this will be the first year that
3 we're looking at that. So we are seeking the
4 Committee's input on any issues or any concerns they
5 may have with the auditor.

6 Also, within the next week or two, we'll be
7 announcing a review of the timeliness. The 990, it is
8 my understanding, has been filed now and that's taken
9 care of. So we can go back and look at the issues that
10 revolved around what was delaying the project from
11 being done? What improvements can be made in the
12 timing, or does the timing need to be changed? This is
13 what we had talked about earlier.

14 So we will be sending out a letter both to Jim
15 and to the audit firms, or audit firm, announcing that
16 we're going to be starting this. We'll start
17 interviewing people and getting information, and
18 hopefully we'll have a result for the Audit Committee
19 and for Jim before that, but by the July meeting.

20 Also, I just want to call attention to -- we
21 started a quality control review process, which we had
22 promised we were going to take a look at all IPAs over

1 a four-year period, at least start that process, and
2 evaluate it each year.

3 Some of the questions go to: What are the
4 IPAs doing out there? How could they miss a fraud?
5 Those types of things. And we're trying to beef up our
6 reviews by contracting with a firm that has experience
7 in conducting the QCRs.

8 There were 13 what we call routine QCRs, part
9 of the four-year cycle done this year. I believe 29 of
10 those were done this reporting period. Only one of the
11 IPAs had work that had no deficiencies noted in the
12 QCR. Thirty-five of them had issues.

13 Fifteen of the reports and the work papers,
14 the IPA needs to supply us additional information so we
15 have assurance that the work was done correctly. We
16 did label four of the products as not meeting
17 standards, and we will take a very close look at those
18 IPAs and the information that we get to see if they
19 have documentation and the information required.

20 On the 20 additional QCRs, we evaluated the
21 results and deemed that it was not necessary for the
22 IPA to submit additional information, but had to ensure

1 additional steps were taken in future audits of LSC
2 grantees to make sure that all the requirements of the
3 standards are met, and also of the compliance
4 supplement.

5 We did issue an advisory memorandum to all
6 IPAs and executive directors so they're informed of
7 what's going on, and we sent a copy, I believe, to all
8 board members and to Jim. Mainly, the issues
9 identified by the QCRs relating to the financial aspect
10 were very limited. Most everything was done fairly
11 well, really good on the financial side, as far as the
12 standards require.

13 The audit work related to the internal control
14 and the fraud analysis that we looked at was almost
15 universally adequate. Most of the issues we identified
16 resulted either from inadequate documentation,
17 revolving around the work done to ensure compliance
18 with regulations, or certain requirements that we had
19 in the compliance supplement were not completed as they
20 were supposed to be.

21 So we have exercised the second option year,
22 and will be looking at the 2011 audit reports, or for

1 the fiscal year 2011, for approximately 35 more IPAs.
2 We will be continuing our review of the information
3 we're getting back from the IPAs we looked at last
4 year, and we may even take it one step further and, on
5 our own, conduct desk reviews of certain information
6 from the IPAs that had not done very well this past
7 year, to ensure that the improvements have been made
8 for this year, to keep trying to make sure that the
9 audits are fulfilling their design purpose.

10 CHAIRMAN MADDOX: Robert?

11 MR. GREY: A question. From an information
12 standpoint, the relationship between IPA, the office in
13 which they have responsibility for, the OIG, and the
14 information that actually flows from that, who actually
15 benefits and what is the benefit from that information?

16 MR. MERRYMAN: From conducting the QCRs?

17 MR. GREY: Yes.

18 MR. MERRYMAN: The benefits are from the
19 standpoint of the Corporation. Each year, every
20 recipient is required to have an adjacent. That is
21 done according to standards and our guidance, and it's
22 supposed to answer the question on compliance with laws

1 and regulation, as well as financial reporting, as well
2 as internal controls.

3 So the first group of people that it benefits
4 is obviously the grantee, to make sure they're getting
5 the service for their money that they're spending on
6 these audits, getting the things done that they need
7 to, and identifying where there's issues or not.

8 It's also valuable information for the
9 Corporation; should information come in that a grantee
10 has not been meeting certain standards or the grantee
11 has certain findings or information -- which there is
12 another process involved where we forward
13 information -- in addition to the audit report, we take
14 a look at the findings and forward that through a
15 followup process to LSC management for them to follow
16 up with the grantee to make sure that corrective action
17 is taken on significant findings.

18 So it benefits LSC because it gives an idea of
19 what's going on at the programs, and allows them to
20 correct problems. It also helps the OIG from the
21 standpoint of risk assessment. Are there similarities
22 at programs? Does this program have other risk factors

1 associated with it? If there's findings within the
2 audit report.

3 So it's very important that the audit reports
4 are accurate and that they're done correctly in
5 accordance with standards. So I think that the
6 program, management, IG, all benefit from it.

7 MR. SCHANZ: If I could add to that, Robert, I
8 think your question was a little more global in nature.

9 This is part of the information-sharing
10 between the OIG and LSC management that has preceded
11 me. It hasn't been as robust as we're making it now.
12 But any time we run a red flag, we get in 135
13 individual audit reports of each of the grantee
14 programs. It may vary a little bit number-wise because
15 some firms do a couple of grantees if they have the
16 nonprofit expertise.

17 But we flag those initially, and that's the
18 right term. We red-flag any potential issues that we
19 would see that would lead us to believe that that
20 program needs a fraud vulnerability visit or an audit
21 or an investigation.

22 So we're the first line of review of those IPA

1 reports. We enter them into a database that we share
2 with management. Generally, in management, it's the
3 Office of Compliance and Enforcement that follows up on
4 the issues that we flag. Now, they may have more skill
5 sets in compliance areas than we do, so we send them
6 the whole report.

7 So all those audit reports that are coming
8 in -- now, the process that Dutch just described is to
9 make sure that the IPAs actually meet AICPA standards.

10 And we have a mechanism where we can recommend
11 suspension or debarment to the State Board of
12 Accountancy if the independent audits do not qualify or
13 meet standards.

14 MR. MERRYMAN: And we also have the ability to
15 bar an IPA, with good cause, from conducting any
16 further work with LSC grantees.

17 MR. GREY: And the IPAs are chosen by the
18 local grantee?

19 MR. MERRYMAN: Yes.

20 MR. GREY: Does it have the same context in
21 terms of audit review that we're suggesting here with
22 the outside auditor? In other words, do you -- you

1 don't have any say at all.

2 MR. MERRYMAN: No. No.

3 MR. GREY: So it's a post review --

4 MR. MERRYMAN: Correct.

5 MR. GREY: -- of the IPA based which is --

6 MR. SCHANZ: Our authority. It's based on our
7 authority.

8 MR. GREY: Your authority. But I'm thinking
9 more in terms of your drill-down. I think the last
10 time you described this, it was, we look at indicators
11 of the IPA, each IPA, to determine whether we think
12 they're in compliance. And then from there, you make
13 some determination or further determination to further
14 drill down into the IPA's audit of the grantee. Is
15 that right?

16 MR. MERRYMAN: Yes, we can. What we do is we
17 generally follow the guidance put out by the IG Council
18 on doing desk reviews of A-133 projects. And we use
19 that guideline, that checklist, plus we modify the
20 checklist for other things that we may be interested in
21 so that we can flag that.

22 Now, if we see something that's not correct in

1 a report, we'll call the IPA if it's something that's
2 correctable. We also may flag it to move it up -- now
3 that we have the four-year cycle going on, we may flag
4 it to move it up to the cycle if we want to get someone
5 out there to actually look at the work papers.

6 Because the audit report tells you so much,
7 but we don't know what's in the work papers. For
8 instance, we try to look at the work papers from the
9 standpoint of some of these major frauds to see if
10 there's any lessons to be learned in that. Why are
11 things missed? Well, obviously, if the auditors onsite
12 are going to say, just give me another one, that's
13 probably not documented in the work papers.

14 We did provide information to one of the
15 organizations based on these what we call targeted, now
16 more specifically targeted for many years or a couple
17 of years, depending on how long the fraud, about a
18 situation where appropriate action had not been taken
19 on a material variation in the analytics. Something
20 jumped way high, and things were not documented.

21 Well, also from the investigation, we knew
22 certain things were being very different to be in the

1 work papers because they did not exist at the program.

2 And there was some indication through a general
3 statement that, oh, yes, that means we did all of this.

4 And so we did forward that on to the program and to
5 investigations.

6 MR. GREY: Last question. The reporting
7 that's actually done with the IPA and the board, the
8 local board, is there some sort of minimum in-person
9 meeting required? Is it more often with some than
10 others? How does that work?

11 MR. MERRYMAN: Are you talking between the IPA
12 and the board? The IPA would be obligated to follow
13 the standards dealing with communication with those in
14 governance. And there's a standard on that, on meeting
15 with boards of directors, and they would have to meet
16 that requirement in order to meet standards.

17 MR. GREY: That's for everything?

18 MR. MERRYMAN: That's for everybody. It's an
19 AICPA standard on communicating with those in
20 governance. I can't remember -- it's the 113 area or
21 something like that. But I can get you a copy of that
22 if you'd like to see that.

1 I'm sorry, would you like to --

2 MR. GREY: But that's one of the things you
3 follow up on to make sure that they are doing --

4 MR. MERRYMAN: Well, that's one of the things
5 that would be to check when we are onsite, when someone
6 is onsite looking at the work papers. There's not a
7 whole lot in the report itself that would confirm how
8 many times, necessarily, what that was. But there
9 should be documentation in the work paper file showing
10 compliance with that standard.

11 MR. GREY: Gotcha. Thank you.

12 CHAIRMAN MADDIX: David?

13 MR. HOFFMAN: A few questions so I understand.
14 And again, with apologies, because this may be because
15 I'm new.

16 Is this QCR process -- my impression is that
17 this is a new process that the IG's office has started.

18 MR. MERRYMAN: Not entirely new. Ever since
19 the 1996 Appropriations Act, there has been reviews of
20 IPAs by the IG's office. When I first got here, there
21 was --

22 MR. HOFFMAN: But this is a new version?

1 MR. MERRYMAN: Well, we've expanded it. When
2 it first started, it was viewed as the biggest risk for
3 being in compliance with or being able to handle the
4 compliance supplement, being able to handle the
5 regulations, and making sure that things were done in
6 accordance with the regulations. And so that's where
7 the focus was at. Now it's both financial and --

8 MR. HOFFMAN: Let me ask a few followup
9 questions. I just want to be clear.

10 What I'm thinking about here is that
11 the -- and correct me if this is wrong -- but the IPAs
12 are critical. The IPAs doing their job well is a
13 critical front-line defense for the Corporation --

14 MR. MERRYMAN: I believe it to be, yes.

15 MR. HOFFMAN: -- in terms of making sure the
16 grantees -- that money is being properly spent. So all
17 of us have a very big stake in making sure the IPAs are
18 doing their job, and the IG's review of the IPAs is
19 therefore also critical.

20 I heard -- and again, I may have
21 misunderstood -- but I heard two different things. One
22 was that the recent QCR looked at 36 IPAs, and 35 were

1 found to have deficiencies.

2 MR. MERRYMAN: Some form of deficiency.

3 Correct.

4 MR. HOFFMAN: Some form of deficiency, which
5 struck me as a high number.

6 MR. MERRYMAN: It struck me as a high number,
7 too.

8 MR. HOFFMAN: But, on the other hand, that
9 what I gathered was that those deficiencies aren't of
10 major concern.

11 MR. MERRYMAN: We don't know.

12 MR. HOFFMAN: Okay. And so, really, the
13 question -- which may not get answered today -- is, is
14 the review of the IPAs robust enough -- and which of
15 course is going to go into questions of authority and
16 resources and so on -- but if it's a checklist of
17 whether it meets the AICPA standards, and the only
18 remedy if there's concern is to take a rather dramatic
19 step of debarring them from ever doing this again or
20 going to an accounting board, that seems like maybe a
21 relatively low-level review and then a very high
22 sanction, which might be difficult to meet; as opposed

1 to, well, they may have only relatively small
2 deficiencies that may not mean that they should be
3 debarred, but maybe not's something that we as LSC,
4 through the IG, should be approving. Maybe, because we
5 want to insist on a higher standard, that we want to
6 have a more robust bar that you need to be above.

7 And these are really -- I don't know the
8 answer. But to me, the IG doing these reviews are
9 exactly right. I just want to make sure, from your
10 perspective, it's really robust enough because I think
11 that's a critical element of the protection.

12 MR. SCHANZ: I'll jump in here, Dutch. To use
13 a term, it's more forensic when were having IPAs
14 looking at IPAs and looking at the work supporting
15 their report. It would be the same thing that happens
16 in the state agencies or the state auditors, where they
17 have their own peer review cycle, very similar to the
18 federal cycle.

19 We want to make sure that the grantees -- now,
20 we don't have the authority; management does -- but to
21 make sure that the grantees are hiring IPAs that are
22 qualified. At one point in time during the Fiscal

1 Oversight Task Force, one of the members was from
2 Florida, and she recommended a three-year rotation
3 cycle, where you change out IPAs so you don't have that
4 same familiarity; because if you report bad things,
5 you're cutting your own budget.

6 So we try to make sure that, yes, what's
7 reported in the report is supported through the work
8 that's been done by the subsequent IPA, A; and B, to
9 make sure that the grantees don't get too familiar with
10 their own IPAs, which to use an example, a live
11 example, was what happened at LAB, Legal Aid of
12 Baltimore.

13 MR. HOFFMAN: So maybe -- and I don't want to
14 go too long on this, so maybe just some thoughts for
15 the future that would be, I think, helpful for us when
16 you're presenting on this in future meetings.

17 MR. MERRYMAN: Let me just clarify one thing.

18 MR. HOFFMAN: Sure.

19 MR. MERRYMAN: We use the checklist to look at
20 the report itself that comes in. Okay? We have the
21 guidelines that the Council of Inspectors General uses
22 to do desk reviews, what's called desk reviews, of

1 A-133 audits. It's very similar, and we modify that to
2 our needs.

3 The more robust is having an individual under
4 contract with us onsite reviewing the actual work paper
5 file, more or less doing a mini peer review to see how
6 it's supported, how the findings are supported, whether
7 the procedures and standards were in place, whether
8 they have a control system in place to make sure of the
9 quality of the report.

10 So they're also following either -- they have
11 their choice of AICPA standards or they have their
12 choice, for reviews, of A-133 and other financial work;
13 or they can use -- again, there's a CIGIE document for
14 conducting onsite reviews.

15 So the onsite reviews are more robust from the
16 standpoint of the quality of work than what the report
17 review would be.

18 MR. HOFFMAN: So me just ask, as of the 35 out
19 of 36 that had deficiencies, how many will there be
20 some followup work by the IG on, if that's been
21 decided?

22 MR. MERRYMAN: Okay. Of the 35 that had a

1 deficiency, we have required them to provide us an
2 answer to specific questions in specific areas of the
3 work done and the support for the concerns that they've
4 reached or the missing documentation, to provide that
5 to us in writing, and we gave them a date certain on
6 that. And if we don't get it, we have to make a
7 decision what to do at that time.

8 Unfortunately, the way that the penalty system
9 is set up, while we can reject the report and not
10 accept it, the penalty falls to the grantee because
11 then the grantee cannot charge any of LSC funds to the
12 cost of that audit, even though they didn't cause it to
13 be not good. It's part of the Corporation's --

14 MR. HOFFMAN: I'm more thinking about -- yes,
15 I understand that point about how there would be a
16 penalty looking backward. But looking forward in terms
17 of whether this particular IPA -- if there are red
18 flags, should that IPA continue to do work for grantees
19 that get LSC funding? I just want to make -- and I
20 don't think we need to resolve this --

21 MR. MERRYMAN: No. I --

22 MR. HOFFMAN: Let me just finish. I just want

1 to make sure that, first of all, the process is
2 sufficient to really identify IPAs that are at the top
3 of the bad actor list or the top of the list of not
4 doing a good job, if there are any of them; and second,
5 that then there are steps that are being taken to
6 protect LSC by saying, you're not allowed to use those
7 people any more.

8 Any alternative, by the way, would be to have
9 an approved list, which probably would be too bulky
10 because it would move away from more local things.

11 MR. MERRYMAN: Right.

12 MR. HOFFMAN: But maybe, if this fits within
13 the agenda next time, I think it might be nice to a
14 little more detail in writing for the next committee
15 meeting about the specifics of this review, how you
16 identify the red flags and whether there are some
17 examples of, have you encountered your top worst IPA
18 list -- you don't have to name them -- and what is done
19 with that?

20 I just want to make sure there's a process to
21 really find red flags and to do something about it so
22 that there's the greatest possible assurance that the

1 IPAs are doing what they should be doing.

2 MR. SCHANZ: Well, I can give you one example,
3 David. The LSC program in Guam didn't get a clean
4 opinion for three times in a row. And that bridged my
5 time here.

6 On the third time, I took it up to the
7 President of the Corporation. I took it out of the
8 tracking system and flagged it personally and handed it
9 to the president, the then-president, and said, "This
10 grantee has failed, has not gotten a clean opinion
11 three times in a row. Something needs to be to be done
12 with this grantee."

13 And that mainly is a management
14 responsibility. We raise the red flag of three unclean
15 opinions in a row, but the action and the funding and
16 the money and the hammer comes from management.

17 So we're looking at that. When I first got
18 here, we put an auditor on that. We have a very
19 experienced person doing that, but I wanted a second
20 set of eyes on some of these reports coming in. So I
21 took an auditor offline and made sure that had
22 information that OCE, management Office of Compliance

1 and Enforcement, could use in managing the grant.

2 CHAIRMAN MADDOX: Can I just ask quickly, to
3 sort of put a real-world example to I think the concept
4 that David was looking at? In the Wanda Lust case -- I
5 think that was \$195,000 -- how many audits went by
6 where she was able to basically pull the wool over
7 their eyes because they were inept?

8 MR. MERRYMAN: Well, I don't know how many
9 audits exactly. From what the investigators indicated,
10 there was like 12 times that document was pulled where
11 she was -- I don't know, four of them were pulled one
12 year. But she was doing it over a six-year period. It
13 could have been two a year. It could have been six in
14 two years.

15 CHAIRMAN MADDOX: Right.

16 MR. MERRYMAN: But the bottom line is, that
17 should not have happened.

18 CHAIRMAN MADDOX: Right.

19 MR. MERRYMAN: I remember looking at just one
20 of the charge card, a charge card bill, and just being
21 skeptical. Why are we going to Wanda's Bargain Barn
22 six times in the same day?

1 CHAIRMAN MADDOX: Right.

2 MR. MERRYMAN: I mean, come on. I Googled it,
3 and that's why I found out.

4 CHAIRMAN MADDOX: To go to the robustness of
5 your work, if I understand it, that was brought to your
6 attention because they called the bank. Is that the
7 one where they called the bank?

8 MR. MERRYMAN: That's the one they
9 called -- evidently, a check came through that didn't
10 make sense to them, that mismatched --

11 CHAIRMAN MADDOX: Right, 1100 versus 1200.

12 MR. MERRYMAN: -- and they had -- yes. And
13 then they got it.

14 CHAIRMAN MADDOX: So I guess the question is,
15 how does OIG find those kinds of cases? How do you
16 find the IPA that's basically not doing their job?

17 MR. MERRYMAN: It's hard. It's hard when you
18 have 139 of them. We try to --

19 CHAIRMAN MADDOX: Right. Well, and that goes
20 to your other point, Dutch. Is the process that you've
21 now got in place where you're doing these QCRs, is that
22 designed somehow to drill down far enough to say,

1 okay -- are you just requesting another sample when
2 they can't find it? Do you actually have a mechanism
3 where you think you're going to be able to find those
4 kinds of cases?

5 Because it's very frustrating to, I think, LSC
6 generally, to the Board, to think we have all these
7 internal controls, and we have task forces --

8 MR. MERRYMAN: Yes. Absolutely.

9 CHAIRMAN MADDOX: -- and we have auditors, and
10 we have OIGs, and yet at the end of the day, if the CFO
11 is smart and clever and doesn't take vacation, we're
12 just stuck.

13 MR. MERRYMAN: Well, but that gets back to
14 what the bigger issue, I believe, really is. The audit
15 is a test of transactions. It may or may not catch
16 what it's supposed to. If you have management
17 override, it makes it even more difficult to test it.

18 CHAIRMAN MADDOX: Right.

19 MR. MERRYMAN: What should be happening, even
20 like in Wanda's case, that could have been stopped
21 before it got started if the executive director was
22 engaged and understand internal controls and how what

1 he was doing --

2 CHAIRMAN MADDOX: Right.

3 MR. MERRYMAN: -- prevented that from
4 happening, rather than waiting for the auditors to find
5 it. Because the auditors take samples. They do an
6 assessment. They take things that are material. They
7 look at the controls associated with the areas of
8 further planning for the purpose of how deep does their
9 test need to go, as opposed to express an opinion on
10 internal controls.

11 Because they don't express an opinion on
12 internal controls. You get it right in the report.
13 The purpose of our review of internal controls was to
14 determine our planning work, which meant, A, if they've
15 got good controls and they're functioning, I don't have
16 to take as large a sample. If they're not designed
17 well, they're not functioning, I've got to take more
18 samples, a larger sample, to assure myself that the
19 numbers are correct.

20 But the real crux to this is management. How
21 much is management talking to their staff about
22 internal controls?

1 MR. HOFFMAN: But Dutch, there's no question
2 you're right. There's no question you're right that
3 even the best audits and the best audit firms will
4 sometimes miss certain kinds of sometimes egregious
5 fraud. No question about that.

6 And there's no question that as much as
7 possible and appropriate should be done to train and
8 provide education to management of grantees so that
9 they're doing a good job.

10 However, there also is a need for -- there's
11 going to be an audit. It's going to be done by IPAs.
12 LSC, through the IG, makes an effort to ensure that
13 these IPAs are doing a good job.

14 So we're just trying to get a handle on what
15 that process is. And when there are examples of red
16 flags being spotted, are there any bad apples within
17 the IPA community who are being spotted, and is it
18 being weeded out?

19 I think that more details on that, perhaps
20 next time, would be helpful for us in understanding it.

21 MR. MERRYMAN: Sure. This is like the first
22 year of the program and it's still being built because

1 one of the things I mentioned was that for the ones
2 that we're having problems with now, we're not just
3 walking away from them and waiting four years. We're
4 going to take a look at getting more information,
5 following up.

6 And part of this is going to be deterrence.
7 Part of this is that they know someone's going to be
8 looking at them in a way they haven't been looked at
9 before. And I hope to see a lot better improvement
10 this coming year. We'll see.

11 MR. HOFFMAN: I think it's a great idea.

12 CHAIRMAN MADDOX: Thank you very -- Gloria?

13 PROFESSOR VALENCIA-WEBER: Yes.

14 CHAIRMAN MADDOX: I really want to --

15 PROFESSOR VALENCIA-WEBER: Briefly. You say
16 you're starting it, so you're in the beginning phases
17 of what you're going to look for. At some point, as a
18 board member, I'd like to know if you have been able to
19 determine from the grantee characteristics, not the IPA
20 characteristics, if there is a pattern among the
21 grantees, which ones tend to experience the
22 difficulties of particular kinds, either hiring

1 qualified IPAs or not getting clean reports.

2 I mean, if there's any characteristics about
3 them that would let us know, perhaps, which grantees we
4 need to provide more help to --

5 MR. MERRYMAN: We always try to look at
6 various situations, various characteristics, to see if
7 we can identify a trend. We did identify one trend
8 early on, that the first-year IPAs doing LSC work need
9 help because they don't understand the regulations, not
10 so much on the financial side. Also, we are concerned
11 about long-term IPAs becoming complacent in what
12 they're doing.

13 So we try to identify -- we haven't identified
14 any as a result of this effort yet, but we do want to
15 identify any type of characteristic that helps use our
16 resources more efficiently in identifying problems and
17 trying to get them stopped.

18 MR. SCHANZ: And I would like to make the
19 point, Mr. Chairman, that there's apples and oranges
20 here a little bit. An IPA is only one of the control
21 mechanisms that is used.

22 We have our own internal audit staff that

1 drills down quite a bit further than an IPA would just
2 to express an opinion on the financial statements. So
3 part of our role is to identify the bad actors and to
4 drill down further and provide in those reports you get
5 and are posted on our website.

6 CHAIRMAN MADDOX: When did the Wanda Lust
7 case -- when was that? Was that before you came along,
8 Jeff? I'm just wondering.

9 MR. SCHANZ: That was in progress when I
10 arrived in 2008. But most of the action -- as most of
11 you know, are lawyers -- litigation takes quite some
12 time.

13 CHAIRMAN MADDOX: Right.

14 MR. SCHANZ: And the investigators explained
15 that case to you earlier, with the restitution and the
16 harshness of the sentence.

17 CHAIRMAN MADDOX: Yes. Well, thank you very
18 much for your report, and we look forward to your
19 comments at our next meeting.

20 Paul, do you have anything else for the
21 attorney or for the OIG before we let them go?

22 MR. SNYDER: No, thank you.

1 CHAIRMAN MADDUX: Okay. Thank you very much.

2 The next item on our agenda, and I guess we're
3 going to need to keep it brief, David, is a report
4 on -- or a briefing on travel procedures from David
5 Richardson, the treasurer and comptroller.

6 Welcome, Mr. Richardson. I have read your
7 memo; I assume that other board members have as well.
8 It's somewhat detailed. Maybe we could get the
9 executive summary.

10 MR. RICHARDSON: Okay. Last evening, Treefa
11 mentioned to you that we are -- she had given an update
12 on the Governance and Performance Committee about the
13 reason that we're complying and doing these type of
14 reviews. The GAO had recommended that the Board review
15 key management processes and review internal controls.

16 So what I have done here is laid out -- I've
17 taken our travel guidelines, which are 30 pages, and
18 condensed them to provide you with a quick overview of
19 the travel.

20 The first page, on page 110, provides you with
21 the authorities that govern the travel. All the travel
22 of the Corporation, whether it be for a board member,

1 for an employee, invited guest, consultant, temporary
2 employee, are governed by these guidelines.

3 I've set out who is to approve those. For
4 instance, the Board is approved by the corporate
5 secretary and his staff. The President, at this point
6 I am approving his travel at his direction. And each
7 director approves travel for those people who work for
8 them and who they contract for.

9 We try to impress upon every traveler that
10 they are to be responsible for and to know our
11 guidelines, those approving the guidelines and those
12 that follow them, the traveler also to be able to know
13 them and follow them.

14 Travel outside the United States is provided
15 for. Has to be approved. If somebody goes to Alaska,
16 Puerto Rico, Hawaii, it has to be approved by the
17 President or for the IG in his office.

18 We provide a number of insurances that I've
19 covered here. And we also provide information in case
20 there's traffic accidents, and we've had a couple of
21 those in the last couple years, just fender bender-type
22 things where it's reported to us and then we report it

1 to the insurance companies, and then report to legal
2 affairs and HR.

3 The travel policies themselves, the policies
4 that we have is at the bottom of 111. I'm looking.
5 Everybody is to submit an expense report. We ask that
6 it be done within 30 days. Receipts that we ask to be
7 provided include the airline ticket, baggage fees,
8 parking lot fees, cab fares in excess of \$25, a hotel
9 folio.

10 Most people have cell phones, so we don't
11 really get a lot of people turning in telephone
12 receipts. But a few years ago I had somebody come up
13 and say, "I am eligible for \$15 today for telephone
14 calls, and I used the local pay phone." And I said,
15 "For six days, you carried \$15 worth of quarters, the
16 amount of \$90, and you used those to make calls?"

17 Well, this person backed away from it at that
18 point. I said, "You're eligible for it, but you've got
19 to have a receipt for it." Of course, at the time we
20 had long-distance calling cards. Today people travel
21 with cell phones. So in case somebody travels and uses
22 a hotel telephone, cell phones not working in some

1 areas, we will pay for their calls.

2 We monitor the expenses. The airline tickets
3 that are purchased, we know when people are traveling.

4 We look at the credit card accounts. Every employee
5 gets a statement each month, and board member, that uses
6 the credit card. We ask that they reconcile it with
7 their travel expense report and turn it in to us within
8 30 days.

9 We have a process of reviewing them, asking
10 for corrections, and we go through that process to get
11 a good, clean report that we then review with the
12 expense account again, with the airline tickets and the
13 credit card, to make sure everything is accounted for.

14 And we track that so that we can make sure that
15 everything is being taken care of.

16 If somebody does not turn in an expense
17 report, we notify them after a 45-day period, and we've
18 notified not only the traveler but the director so that
19 we can -- the person who is approving the expense
20 report so that we can get them turned in and take care
21 of them.

22 We have had a process of suspending a couple

1 of cards. We have been a little lax on that in the
2 past. But there has been occasions where somebody has
3 gone over 60 days without turning in an expense report.

4 We have suspended their use of the credit card.

5 And we've actually suspended the use of one
6 person's for six months who had not turned in travel
7 expense reports timely, and then turned them back on,
8 because they were just turned off for a while, so that
9 they could then use them in the future.

10 A pretty powerful incentive, isn't it? I
11 mean, if they don't have a credit card, they can't
12 travel. They can't do their job. Right?

13 MR. RICHARDSON: No, sir. What we do is we
14 tell them that if they're required to travel, they
15 travel on their own dime.

16 CHAIRMAN MADDOX: Right. So anybody faced
17 with that prospect is going to get their report in.
18 Right?

19 MR. RICHARDSON: You would think so. But we
20 have had circumstances where they don't.

21 CHAIRMAN MADDOX: I don't want to
22 short-circuit your report unreasonably, but we are in

1 overtime. Can I just ask one general question? How
2 much does the Corporation spend on travel -- airline,
3 car rentals, hotels, food, et cetera? It's in our
4 reports, our financial reports. It's a lot, isn't it?
5 How many millions is it?

6 MR. RICHARDSON: Well, this year we have
7 budgeted \$1.3 million.

8 CHAIRMAN MADDOX: So it's an item that
9 obviously deserves your attention. And as the
10 comptroller, I gather that you've got a system in place
11 that you believe, and reasonably believe, is adequate
12 to monitor travel expenses and to provide reasonable
13 assurance against any sort of abuse of the system?

14 MR. RICHARDSON: Absolutely. Whenever we get
15 a credit card account in, we have a general account for
16 Omega, where we purchase our tickets. Everybody has a
17 travel authorization that is approved. That's matched
18 to the ticket before that it's paid.

19 We look at their credit card accounts. You
20 get a statement, but we get a master statement. We
21 look at those statements to make sure that all the
22 charges are appropriate. When there is something

1 that's not appropriate, we make the traveler aware of
2 it.

3 A few years go, had a director -- actually, a
4 vice president -- had a credit card that was almost the
5 same color of the LSC credit card. They went to a
6 movie one night and charged their movie on the LSC
7 credit card.

8 MS. REISKIN: Accidentally?

9 MR. RICHARDSON: Accidentally. She called me
10 the next morning. "I made this -- had this little
11 problem. I charged \$15. I will bring you a check
12 right now." We've had circumstances like that. We
13 have not had any circumstances of fraud at this point.

14 CHAIRMAN MADDOX: Right. Has the outside
15 auditor ever brought to your attention any concerns for
16 the system you have in place for controlling travel
17 expenses?

18 MR. RICHARDSON: They have not. We detail and
19 provide to the auditors every year any change in the
20 system. This system has actually only been in place
21 since 2008, 2009, in that range. And we review it with
22 them every year. We have made a few tweaks trying to

1 improve it.

2 At one time when you traveled, if you recall
3 the expense report, it has transportation, meals,
4 hotel, and other. We used to record all those
5 separately. I was told, we're going to have plenty of
6 questions on that. Well, for ten years we did not have
7 any questions on it.

8 So what we do now is we record the total cost
9 of the trip, and then we offset, if you purchase a
10 ticket, your credit card, so that we have one entry for
11 the cost of the trip, so that if anybody questions us
12 how much a particular trip cost, we've got it sorted.

13 I can tell you how much it costs to go -- and
14 I'll think of your neighborhood, Mr.
15 Maddox -- AppalReD. We can say, if a group went there
16 and four people went, I can tell you how much it cost
17 for that trip. If we went to Northern California, we
18 can sort it by the grantee code and give back a report
19 on how much that spending is.

20 And we share that with the directors. We make
21 it available to them. They have the ability to review
22 expenses. And our travel coordinator also tracks that

1 stuff. So we have a lot of checks and balances in
2 place to make sure that we are following up and making
3 sure everything is properly accounted for.

4 CHAIRMAN MADDOX: David, real quick.

5 MR. HOFFMAN: Real quick. Two very, very
6 quick questions --

7 CHAIRMAN MADDOX: Go ahead, Paul.

8 MR. SNYDER: One quick question is, it's
9 fairly standard practice for public companies for the
10 audit committee once a year to receive a report,
11 summary report, of the expenses of senior officers,
12 maybe the top five, and it's broken down by travel,
13 entertainment, meals, hotel.

14 And it's really, probably as much as anything,
15 just a monitoring function, but also to make sure that
16 if they get to a level that might cause some
17 embarrassment, that it makes everybody aware of it.

18 So it's a fairly standard report people do
19 every year, and the public companies do. Have we
20 thought about that from time to time, just how much
21 communication monitoring?

22 And then the second thing, David, has there

1 ever been a reporting violation of a senior officer
2 from an expense policy? And if there would be, would
3 you report that to the audit committee?

4 MR. RICHARDSON: Yes, sir. Let me back up.

5 There was an inspector general review of a
6 president's travel a few years ago, and there was some
7 questions about the travel there. If I found anything
8 irregular at this point, with the working relationship
9 that I have with this Board and the President, I would
10 be able to come to the Board and report that to you.

11 MR. SNYDER: Even if that was the President?

12 MR. RICHARDSON: Yes. The President has
13 explicitly told me that I have the final say on his
14 travel, and if I felt there was any irregularity, I
15 would be at liberty to report to you.

16 I can tell you up front, though, that that's
17 not going to happen. Jim is very -- we have per diem,
18 and he might charge a \$4 pack of cookies and a drink
19 for lunch. He's very frugal when he's traveling.

20 MR. SNYDER: It's more to the question as to
21 policy and process, the fact that you're comfortable
22 doing that?

1 MR. RICHARDSON: Absolutely.

2 MR. SNYDER: But you might want to consider
3 just a summary, once a year. Like I say, public
4 companies do it just from a monitoring standpoint.

5 CHAIRMAN MADDOX: Thank you, Paul.

6 David?

7 MR. HOFFMAN: Very quick, and I'll put aside
8 the imminent scandal of Jim eating cookies for lunch.

9 (Laughter.)

10 MR. HOFFMAN: But two quick questions that --

11 CHAIRMAN MADDOX: While he's traveling.

12 MR. HOFFMAN: Two quick questions that may
13 call for very quick responses.

14 I assume that all the activities, the spending
15 and other activities regarding travel, are transparent
16 to the IG in the sense that the IG has the ability to
17 look at any of these if they desire to do so?

18 MR. RICHARDSON: He does.

19 MR. HOFFMAN: Okay. And the second question
20 is along the lines of Paul's question. Have you
21 received in the last 12 months or so any negative
22 findings from the IG on anything to do with travel,

1 either negative findings regarding the policy or
2 internal controls, or negative findings regarding
3 findings of misconduct -- fraud, dishonesty of any of
4 the employees involved in this?

5 MR. RICHARDSON: No, sir.

6 MR. HOFFMAN: Okay. Thank you. And you'll
7 let us know if you do get those findings?

8 MR. RICHARDSON: Absolutely.

9 MR. HOFFMAN: Thank you.

10 CHAIRMAN MADDOX: Any other questions from the
11 Board?

12 (No response.)

13 CHAIRMAN MADDOX: Thank you very much for your
14 report. Appreciate it.

15 That takes us to, I think, the next item on
16 our agenda, which is going to be public comment. Is
17 there any public comment?

18 (No response.)

19 CHAIRMAN MADDOX: Seeing none, that will take
20 us to the next item, which is to consider and act on
21 other business. I take it there is none?

22 (No response.)

1 CHAIRMAN MADDOX: I'll therefore ask for a
2 motion to adjourn.

3 M O T I O N

4 MR. HOFFMAN: So moved.

5 CHAIRMAN MADDOX: And a second?

6 MR. KORRELL: Second.

7 CHAIRMAN MADDOX: And all in favor?

8 (A chorus of ayes.)

9 CHAIRMAN MADDOX: The motion is approved.

10 Thank you.

11 (Whereupon, at 3:46 p.m., the Committee was
12 adjourned.)

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